MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BAC 3644 – TAXATION 2

(All sections / Groups)

06 MARCH 2020
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Negoya Sdn. Bhd. manufactures textile located in Klang, Selangor. The company closes its accounts to 30 September every year. The income statement for the year ended 30 September 2019 is as follows:

	Note	RM	RM
Revenue			1,350,000
Less: Cost of sales	1		(589,000)
			761,000
Add: Other income	2		150,800
			911,800
Less: Expenses			
Selling and distribution expenses	3	746,600	
Administrative and other operating expenses	4	300,900	(1,047,500)
Net Profit/(Loss) before tax			(135,700)

Notes:

1. Cost of sales includes the following:

	RM
Realised foreign exchange loss for acquisition of raw materials	47,200
Allowance for stock obsolescence	63,200
Depreciation of plant and machinery	320,000
Interest payment **(see note i)**	105,800

Note (i): Interest paid to non-resident company on 31 May 2019 and the withholding tax remitted to the IRB on 15 June 2019.

2. Other income comprises:

	RM
Insurance compensation on loss of company's stock	30,800
Gains on disposal of the company's plant and machinery	35,000
Rental income **(see note ii)**	85,000

Note (ii): The rental income relates to a warehouse building in Thailand in which the company provides active maintenance and support services.

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3. Selling and distribution fees include the following:

	RM
Lucky draw prizes to customers for purchase made	18,000
Gift without company's logo during annual dinner	9,600
Ship freight charges for shipping goods from Sabah to Head Office in Kuala Lumpur	56,600
Lease rentals **(see note iii)**	108,810
Repairs on acquisition of machinery **(see note iv)**	36,800

Note (iii): The company has made lease rentals in respect of the following vehicles:

	Cost of the vehicle **RM**	**Lease rental during the year** **RM**	**Accumulated lease rental on 1.10.2019** **RM**
Mazda car	145,000	47,143	60,715
Lorry	185,000	31,667	61,667

Mazda car is passenger vehicle provided for the use of client visit from oversea. All vehicles are used in the business.

Note (iv): The company incurred repairs cost for the automation machine which is unable to be used and delivered before it has been repaired.

4. Administration expenses include:

	RM
Donations-in-kind **(see note v)**	45,000
6 months advance rental for office building	30,000
Key-man insurance **(see note vi)**	19,200
Annual general meeting expenses	39,500
Training cost **(see note vii)**	21,600

Note (v): The company contributed computer and books to the Selangor State Library to improve library facilities. The company decided to claim this contribution under section 34(6)(g).

Note (vi): Key-man insurance under an endowment policy on the life of the director in which the company is the beneficiary.

Note (vii): The company incurred training cost for unemployed graduates. The cost included training allowances for trainee and instructors' fees amounting to RM9,600 and RM12,000 respectively.

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Additional information:

The current year capital allowances and balancing charges for the year of assessment 2019 have been computed as RM150,000 and RM68,000 respectively.

Required:

(i) Starting with the 'net profit before taxation', compute the income tax payable of Negoya Sdn. Bhd. for the year of assessment 2019.

Note: You are NOT required to explain the adjustments made in the tax computation except to indicate "Nil" where no adjusting entries are required. Show all workings

(15 marks)

(ii) Explain briefly tax treatment for each item under note (i), note (ii) and note (iii) above.
(5 marks)

[Total: 20 marks]

QUESTION 2

A. Acijaya Estate Sdn. Bhd., a business of palm oil plantation company. The company was incorporated on 1 January 2016 and commenced its business on 1 April 2016. The company prepares its account to 31 March annually. The following expenses were:

Date	Expenditure	RM
30.4.2016	Cost of land	3,000,000
31.8.2016	Clearing of land	555,000
31.1.2017	Construction of estate administrative office	255,000
28.2.2017	Planting: seedlings and fertilizing	455,000
1.4.2018	Construction of living quarters for employees	355,000
31.1.2018	Purchase of living accommodation for managers in town	300,000

On 31 December 2018, the palm oil plantation was sold to Glenmarie Estate Sdn. Bhd. for RM6,900,000. The accounting year end for Glenmarie Estate Sdn. Bhd. is 30 June annually.

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Required:

(i) Compute the agriculture allowance and/or charge for Acijaya Estate Sdn. Bhd. and Glenmarie Estate Sdn. Bhd. for all relevant years of assessment up to year of assessment 2019. Assume that the company did not elect Paragraph 27 of Schedule 3, Income Tax Act 1967.

(8 marks)

(ii) Briefly explain the election to spread agriculture charge under Paragraph 27 of Schedule 3, Income Tax Act 1967.

(2 marks)

B. Ricon Sdn. Bhd., a company resident in Malaysia, is involved in entertainment business. In the month of June 2019, the company has organized few concerts and performances featuring local and international artists which were held at Istana Budaya, Kuala Lumpur. The detail of the transactions was as follows:

Date	Transactions
3 June 2019	Paid RM150,000 to the local musicians and artists
5 June 2019	Paid RM200,000 (total) to international artists for their performances. All of them are non-resident in Malaysia.
7 June 2019	Paid RM20,000 to Steve Thorton, an international percussionist. Steve is a tax resident in Malaysia since 2010.
15 June 2019	Paid interest of RM30,000 to a foreign, non-resident bank for loan utilized to finance the concert.

Required:

(i) Explain with reason whether the above payments made by Ricon Sdn. Bhd. are subjected to withholding tax.

(4 marks)

(ii) Compute the amount of the withholding tax payable to the Inland Revenue Board of Malaysia. State the due dates to render the withholding tax to the tax authority.

(4 marks)

(iii) Define the term of 'Permanent establishment'.

(2 marks)

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QUESTION 3

A. Encik Jaafar, an Indonesian has obtained permanent residence in Malaysia since 2010. He purchased an apartment in Taman Bukit Beruang, Melaka for RM380,000 (market value at RM400,000) on 1 March 2011. Upon the acquisition of the apartment, he incurred RM2,800 and RM1,900 for legal fees and valuation fees respectively. On 24 May 2019, he transferred the apartment as a gift to his daughter, Puan Farah when the market value of the house was at RM516,000.

Besides that, Encik Jaafar bought a semi-detached house in Ayer Keroh, Melaka on 5 May 2015 for RM345,000. The market value of the house was RM382,000. On 10 January 2016, he incurred RM25,700 to renovate the house. On 6 July 2016, he received RM12,000 from the house developer to compensate for some damages to the house. He also received RM25,400 as deposit from a potential buyer but later the deposit was forfeited. Encik Jaafar sold the house to Zarina for RM446,000 on 27 August 2019 (market value at RM479,500). Upon disposal, he incurred RM1,800 and RM500 as legal and stamp duty fees respectively. He wishes to make an election to claim for private residence exemption.

Required:

(i) Determine the real property gains tax implication for the apartment being disposed by Encik Jaafar.

(4 marks)

(ii) Compute the real property gains tax payable by Encik Jaafar on the disposal of the semi-detached house on 27 August 2019.

(6 marks)

B. Kavitha is a Malaysian citizen entered into agreement with Getir Development Sdn. Bhd. (GDSB) on 16 August 2015 to purchase a land in Selangor with a price of RM350,000. Kavitha paid the amount due to GDSB on 23 November 2015 and she incurred RM15,000 for legal fees during the purchase take place. During the ownership of the land, Kavitha incurred RM72,000 of interest expense for a loan she used to finance the purchase of the land and RM7,000 for legal fees in order to defend her title on the land from a claim by GDSB on 2 June 2018.

In August 2018, Kavitha received compensation of RM10,000 for damages to the land from a third party and RM4,000 for insurance cover due to the damages.

Kavitha disposed the land to Maju Sdn. Bhd. for RM700,000 on 10 September 2019. Upon disposal, she incurred RM4,180 for agent commission and RM420 paid to tax agent for filling of the real property gains tax return.

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Required:

(i) State, with reason, the acquisition date of the land for Kavitha.

(2 marks)

(ii) Compute the real property gains tax payable on the disposal of the land by Kavitha.

(8 marks)

QUESTION 4

Cik Sarina owns a maternity boutique, MotherModern Boutique since 2011. During the year of 2019, she received a notice from Inland Revenue Board (IRB) for a tax investigation due to under-declaring her income. She has been requested to prepare her capital statement for the years 2017 and 2018 to be submitted to IRB.

Due to the tax investigation, Cik Sarina has requested you, as her tax agent to prepare the capital statement based on the following information provided by her in respect of her assets and liabilities:

1. A luxury condominium bought on 31 December 2018 at a cost of RM850,000. She paid a sum of RM85,000 as a down payment and balance was financed by a bank loan. The loan instalments were commenced on 1 January 2019 with a monthly instalment of RM1,894.

2. A Range Rover car was bought in 2018 for RM568,000. She made a down payment of RM20,000 during the acquisition and the balance was financed by 5 years of hire purchase agreement with 60 monthly instalments. The installment of RM9,389 per month was paid commencing from July 2018.

3. Savings accounts balances amounting to RM95,000 and RM102,000 as at 31 December 2017 and 2018 respectively.

4. Cash in hand was RM6,000 and RM4,500 for the year of 2017 and 2018 respectively.

5. A set of diamond jewelry worth of RM30,000 bought in year 2017.

6. An investment in Amanah Saham Malaysia worth of RM200,000 and RM250,000 as at 31 December 2017 and 2018 respectively.

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7. Balance Sheet Statement for MotherModern Boutique as at 31 December:

	2017	2018
	RM	RM
Capital	30,000	30,000
Profit and loss account	41,000	33,000

8. She estimated her household expenses of RM13,000 for year 2018.

9. For the year of 2018, she has declared income of RM60,000, and paid income tax expenses of RM9,600 for the year of 2018.

Required:

(i) Compute the omitted income (if any) of Cik Sarina for the years of assessment 2018 by using the capital accretion method (mean test).

(16 marks)

(ii) State TWO (2) differences between a tax audit and a tax investigation.

(4 marks)

QUESTION 5

TRX Sdn. Bhd. is a manufacturing company, resident in Malaysia and closes its accounts to 31 December annually. The company produces promoted product located in Nusajaya, Johor. The company applied for investment incentives and received approval on 1 June 2016.

The financial information concerning the company are as follows:

	2018	2019
	RM	RM
Business Income		
Adjusted income	980,000	1,280,000
Balancing charge	-	94,500
Capital allowances for the year	470,000	520,000
Unabsorbed capital allowance	19,000	-

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Statutory Investment Income		
Rental income	45,000	55,000
Interest income	-	34,000
Cash donation to an approved institution	15,000	20,000
Capital expenditure	700,000	820,000

Required:

For all relevant years of assessment, compute the chargeable income and the amount to be credited to the exempt income account by TRX Sdn. Bhd. claiming for:

(i) investment tax allowance (ITA) of 60%; and

(ii) pioneer status.

[Total: 20 marks]

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APPENDIX 1

TAX RATES AND ALLOWANCES

i) Tax rates of resident company

Chargeable income	Rate
<= RM500,000	17%
Excess RM500,000	24%

ii) Tax rates of non-resident company

All chargeable income	24%

iii) Non-resident tax rate (other than non-resident company)

Type of income	Year 2019
	Rate of Tax (%)
Interest	15
Royalty	10
Contract payment	10 + 3
Technical and management fees	10
Lease rental of movable properties	10
Public entertainers	15
Section 4(f) income	10

iv) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

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v) Agriculture and forest allowance

	Capital expenditure – Agriculture	Rate of allowance (%)
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	Capital expenditure-Forest	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

vi) Real property gains tax

Disposal by all persons for YA2019

Holding Period	Individuals Citizen or Permanent Resident	Non-Citizen or Non-Permanent Resident	Sdn. Bhd.	Others
Within 3 years	30%	30%	30%	30%
In the 4th year	20%	30%	20%	20%
In the 5th year	15%	30%	15%	15%
Beyond 5 years	5%	10%	10%	5%

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